

Department of Labor and Workforce Development

**For the Year Ended
June 30, 2000**

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

June 19, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Michael E. Magill, Commissioner
Department of Labor and Workforce Development
Andrew Johnson Tower, 2nd Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Labor and Workforce Development for the year ended June 30, 2000.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Labor and Workforce Development is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Labor and Workforce Development's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Labor and Workforce Development
For the Year Ended June 30, 2000

AUDIT SCOPE

We have audited the Department of Labor and Workforce Development for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and the Tennessee Single Audit Report for the same period. These areas included Employment Service, Unemployment Insurance, Trade Adjustment Assistance–Workers, and the Job Training Partnership Act. In addition to those areas, our primary focus was on management’s controls and compliance with policies, procedures, laws, and regulations in the areas of the schedule of expenditures of federal awards, equipment, revenue, payroll, the Employment Security Trust Fund, and contingent and deferred revenue. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

Trade Adjustment Assistance Program Participants Were Overpaid

Program participants were overpaid because the department did not adequately monitor their eligibility (page 12).

“Audit Highlights” is a summary of the audit report. To obtain the complete audit report that contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Labor and Workforce Development
For the Year Ended June 30, 2000

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Department of Labor and Workforce Development For the Year Ended June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Labor and Workforce Development. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

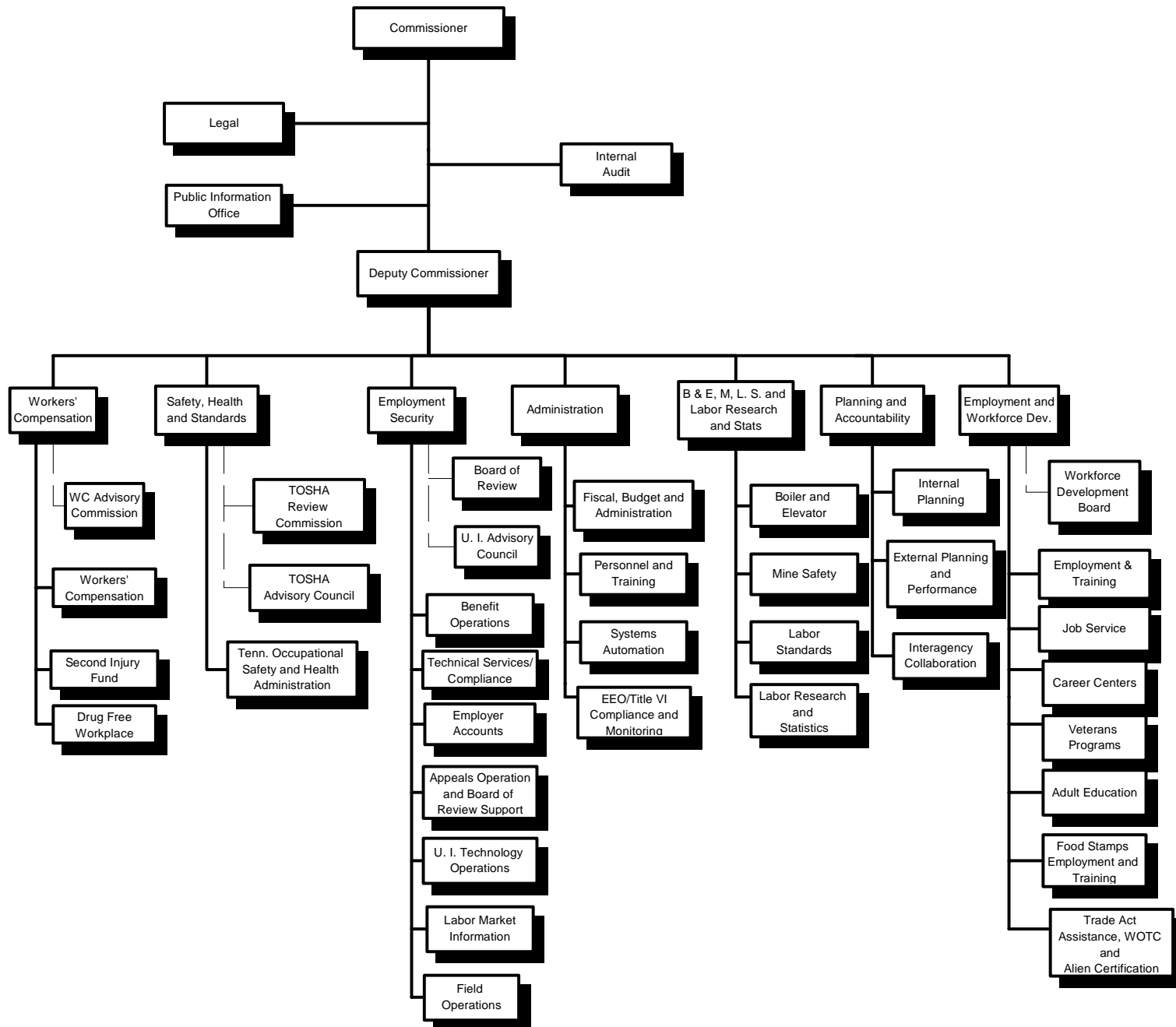
BACKGROUND

The Department of Labor and Workforce Development was created pursuant to Chapter 520 of the Public Acts of 1999, which was approved on June 17, 1999. As a result, all programs administered by the Department of Employment Security and the Department of Labor prior to this date were transferred to the Department of Labor and Workforce Development.

The mission of the Department of Labor and Workforce Development is to bring together businesses that offer jobs with workers who need jobs. This mission is accomplished through job-related assistance, education, and training. The commissioner is assisted by a deputy commissioner, seven administrators, an internal audit section, legal counsel, and a public relations office. The seven administrators are responsible for the direct programmatic areas of the department. These areas include the Division of Administration, the Division of Boilers and Elevators, Mine Safety, Labor Standards, Labor Research and Statistics, the Division of Employment and Workforce Development, the Division of Employment Security, the Division of Planning and Accountability, the Division of Occupational Safety and Health, and the Division of Workers’ Compensation.

An organization chart of the department is on the following page.

Department of Labor and Workforce Development Organization Chart



AUDIT SCOPE

We have audited the Department of Labor and Workforce Development for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and the Tennessee Single Audit Report for the same period. These areas included Employment Service, Unemployment Insurance, Trade Adjustment Assistance–Workers, and the Job Training Partnership Act. In addition to those areas, our primary focus was on management’s controls and compliance with policies, procedures, laws, and regulations in the areas of the schedule of expenditures of federal awards, equipment, revenue, payroll, the Employment Security Trust Fund, and contingent and deferred revenue. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Employment Security filed its report on August 21, 2000, with the Department of Audit, and the Department of Labor filed its report with the Department of Audit on September 29, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Labor and Workforce Development has corrected the previous audit findings concerning the allowability of costs charged to the Trade Adjustment Assistance Program, controls over equipment, and use of the state’s mainframe. The department has also resolved the special investigations findings concerning unauthorized claims that escaped detection and a department manager’s abuse of a position.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Labor and Workforce Development is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Labor and Workforce Development is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined that the following areas within the Department of Labor and Workforce Development were material to the CAFR and to the Single Audit Report: Employment Service, Unemployment Insurance, Trade Adjustment Assistance–Workers, and the Job Training Partnership Act.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the applicable sections.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2000. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 2000, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

The audit of the department revealed the following finding in the area related to the Single Audit Report:

- The department overpaid Trade Adjustment Assistance program participants

In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EMPLOYMENT SERVICE

The Employment Service cluster consists of the following program titles: Employment Service-General, Disabled Veterans Outreach Program, and the Local Veterans' Employment Representative Program. The basic purpose of the Employment Service system is to bring together individuals who are seeking employment and employers who are seeking workers, thereby improving the nation's labor markets. The Disabled Veterans Outreach Program provides disabled and other veterans with job and job training opportunities. The Local Veterans' Employment Representative Program provides veterans with job development, placement, and support services.

Our audit of the Employment Service program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowable and Allowable Costs/Cost Principles
- Cash Management
- Earmarking
- Period of Availability of Funds
- Federal Reporting
- Schedule of Expenditures of Federal Awards

The primary audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared administrative control memos and performed tests of controls; and assessed risk.

General Internal Control

Our objectives were to document departmental procedures and assess management's general controls. We interviewed key program employees; reviewed organization charts, departmental procedures, job responsibilities within each division, and correspondence from the

grantor; and considered the overall control environment. Based on interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowable and Allowable Costs/Cost Principles

The primary objectives of this area were

- to determine if grant funds were expended only for allowable activities, and
- to determine if the federal expenditures were in compliance with grant requirements.

To determine if grant funds were expended for allowable activities only, we tested a nonstatistical sample of expenditures to determine if program costs were adequately supported, charged to the applicable grant program and cost category, properly approved, and paid correctly. Supporting documentation for program expenditures was examined to determine if the charges were valid and allowable. Based on our testwork, we determined grant funds were expended for allowable activities and were in compliance with federal regulations.

Cash Management

Our objectives for this area were to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement and that drawdown requests were based on program requirements.

Earmarking

The primary objective was to determine if the department met the earmarking requirements.

We interviewed departmental personnel and reviewed program guidelines. Grant program amounts were traced to the State of Tennessee Accounting and Reporting System (STARS) to determine if the required percentage was met.

Based on our testwork, the department met the earmarking requirement.

Period of Availability of Federal Funds

The primary objective for the Employment Service Program was to determine if the department obligated federal funds within the period of availability and liquidated those obligations within the required time period.

The award documents and financial reports were traced to supporting documentation to determine if funds were obligated, reallocated, or expended within periods allowed.

Based on our review of award documents and financial reports, the department met the period of availability requirements for the program.

Federal Reporting

The primary objective was to determine if the required reports for federal awards included all activity of the reporting period, were supported by applicable accounting records, and were presented in accordance with program requirements.

We asked key departmental personnel about the requirements and procedures for preparing, reviewing, and submitting program reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines and requirements.

Based on our reviews and testwork, it appeared that, in all material respects, reports of federal awards included all activity of the reporting period, were supported by accounting records, and were submitted in accordance with program requirements.

UNEMPLOYMENT INSURANCE

The Unemployment Insurance program provides compensation to unemployed workers for periods of involuntary unemployment. The Department of Labor and Workforce Development serves as the administrator of the state's Employment Security function, which includes collecting "unemployment taxes." The department is also responsible for determining claimant eligibility and generating benefit payments.

Our audit of the Unemployment Insurance program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Eligibility

- Reporting
- Special Tests and Provisions

General Internal Control

Our primary objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees and reviewed organization charts, departmental procedures, job responsibilities within each unit, and correspondence from the grantor. The overall control environment of the Unemployment Insurance program was considered.

Based on our interviews and reviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The primary objectives of this area were

- to determine if grant funds were expended only for allowable activities, and
- to determine if the federal expenditures were in compliance with grant requirements.

To determine if grant funds were expended for allowable activities only, we tested a nonstatistical sample of expenditures to determine if program costs were adequately supported, charged to the applicable grant program and cost category, properly approved, and paid correctly. Supporting documentation for program expenditures was examined to determine if the charges were valid and allowable. We had no findings related to activities allowed and allowable costs for the Unemployment Insurance program; however, minor weaknesses came to our attention which were reported to management in a separate letter.

Cash Management

Our objectives for this area were to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement and that drawdown requests were based on program requirements.

Eligibility

Our primary objectives were to determine whether controls over eligibility determinations and verifications were adequate, and if claimants were eligible for unemployment compensation in accordance with Unemployment Insurance law.

Using information in the Employment Security Combined Online Technology (ESCOT) system, we tested a nonstatistical sample of unemployment benefit payments to claimants to determine if the individuals were eligible per compensation program requirements. Supporting documentation for each claimant was obtained and examined. We also reviewed the benefit history of each claimant in the sample to determine if the department reverified the claimant's eligibility.

Testwork revealed that controls over eligibility for the Unemployment Insurance program were adequate and that claimants were eligible for compensation in accordance with program rules and regulations. We had no findings related to eligibility for the Unemployment Insurance program.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting or performance records, and were submitted in accordance with program requirements.

We asked key departmental personnel about the requirements and procedures for preparing, reviewing, and submitting the program reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines.

Our review of selective federal financial and program activity reports revealed that reports were submitted in accordance with program requirements.

Special Tests and Provisions

Special Tests and Provisions (ST&Ps) for this program consist of the following: Employer Experience Rating and the Match with IRS 940 Federal Unemployment Tax Act (FUTA) Tax Form. Each ST&P appears separately below.

Employer Experience Rating

Our main objectives were to verify the accuracy of the employer's annual state Unemployment Insurance tax rate and determine if the tax rate was properly applied by the state. Key employees were interviewed about procedures related to the computation of the employer's

annual tax rate. We tested a nonstatistical sample of employer accounts and recomputed the employer experience-related tax rate. We also reviewed the documentation of taxes received and benefits paid for each selected employer account.

We determined that the annual state Unemployment Insurance tax rate was accurate and properly applied by the state. Tests also indicated that the department properly computed the employer experience rating.

Match With IRS 940 FUTA Tax Form

Our main objectives were to document the department's procedures for conducting the annual match and determine if reviewing supporting documentation properly performed the match. Key employees were interviewed about the procedures for certifying state FUTA tax credits. Supporting documentation was obtained and examined to ascertain if the department properly administered the match.

The results of our review revealed that the department has procedures for conducting the annual match to support its certification of state FUTA tax credits. We noted that the department properly administered the match.

TRADE ADJUSTMENT ASSISTANCE—WORKERS

The purpose of the Trade Adjustment Assistance program is to assist individuals who become unemployed or underemployed as a result of increased imports. The department administers the benefit provisions of the act. Program activities include coordinating technical training, relocation assistance, job search, and weekly trade readjustment allowances to program participants.

Our audit of the Trade Adjustment Assistance program focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Period of Availability of Funds
- Federal Reporting

General Internal Control

Our primary objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees and reviewed organizational charts, descriptions of duties and responsibilities, grant requirements, and departmental policies and procedures.

Based on our reviews and interviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The primary objectives of this area were

- to follow up on the prior audit finding concerning allowable costs and determine if the department initiated corrective action procedures,
- to determine if grant funds were expended only for allowable activities, and
- to determine if the federal expenditures were in compliance with grant requirements.

To determine if grant funds were expended for allowable activities only, we tested a nonstatistical sample of expenditures to determine if program costs were adequately supported, charged to the applicable grant program and cost category, properly approved, and paid correctly. Supporting documentation for program expenditures was examined to determine if the charges were valid and allowable. Management's response to the prior audit finding was reviewed in conjunction with other follow-up procedures to document the department's current disposition.

Based on testwork performed, we determined that grant funds were expended for allowable activities, and program costs were adequately supported and paid correctly. The department effectively monitored the costs charged to the Trade Adjustment Assistance program and submitted a corrective action resolution to the federal grantor. The prior audit finding regarding allowable costs will not be repeated for the current audit.

Cash Management

Our objectives for this area were to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement and that drawdown requests were based on program requirements.

Eligibility

Our primary objectives were to determine whether controls over eligibility determinations and verifications were adequate and if the program participants were eligible according to program rules and regulations.

We tested nonstatistical samples of payments to participants to determine if the individuals were eligible for the benefit. Our test included a review of the participant's application request for completeness. We also examined claims for documentation of approval or denial.

We determined that participants were eligible based on program rules and regulations except as noted in finding 1, where the department overpaid Trade Adjustment Assistance program participants.

Findings, Recommendations, and Management's Comments

The department overpaid Trade Adjustment Assistance program participants

Finding

The Department of Labor and Workforce Development did not adequately monitor the eligibility of participants in the Trade Adjustment Assistance (TAA) program. As a result, participants were overpaid.

The TAA program was created to provide assistance for individuals who become unemployed due to situations such as increased imports. The program can provide participants with training assistance that will allow the participants to enter a new trade or business. The department enters into contracts with the local education institutions that arrange for training and provide a weekly trade readjustment allowance (TRA) for program participants. Eligible individuals may also receive a job search allowance, a relocation allowance, or a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance from their regular place of residence.

A sample of TAA program recipients revealed that 2 of 60 participants (3%) received weekly trade readjustment allowance overpayments of \$93.00 and \$202.00, respectively. In each instance, the program participant stopped attending the training class. As a result, the students were no longer eligible to receive benefits. However, management did not detect the overpayments. For fiscal year ended June 30, 2000, the department reported program expenditures in the amount of \$839,861. The total questioned cost was determined to be \$295.00

in a sample of \$9,394.96. The likely federal questioned cost associated with this condition could exceed \$10,000.00.

The Trade Act, Part 617.18, subpart B, establishes the following rules and regulations regarding the disqualification of eligibility:

A worker shall be determined to have ceased participation in a training program when the worker fails to attend all scheduled training classes and other training activities scheduled by the training institution in any week of the training program without justifiable cause.

Recommendation

The Director of the Trade Adjustment Assistance program should ensure that only eligible program participants are receiving benefit payments. The eligibility of program participants should be monitored on a consistent basis to readily identify changes in the eligibility of participants and prevent the issuance of benefit overpayments.

Management's Comment

We concur with your finding that two Trade Adjustment Assistance participants received overpayments of \$93.00 and \$202.00 respectively. With regard to the two sample cases, both students failed to return to the training facilities after a scheduled break period. During such break periods, it is customary for said facilities to endorse weekly certifications ahead of time as the schools are shut down and no administrator is available at the facility during the actual week the certification should be signed. One claimant has already repaid the overpayment in the amount of \$202.00, and we expect to recoup the \$93.00 overpayment shortly.

Our Department relies solely on information provided to us by training facilities as it pertains to a claimant's enrollment and continued participation. If a school does not maintain accurate records regarding a student's attendance and enrollment status, follow-up information may not be communicated to our Agency in a timely manner and an overpayment may result. The Federal Claims Unit has internal policies in place to follow up on claimants who have not certified for several weeks and ascertain the status of their enrollment. This particular policy will be continued and every effort made to include all TRA files in temporary non-payment status.

Other preventative measures we are taking include providing additional language on information sheets given to both TRA claimants and training facilities advising them to report immediately to our Department any changes in the training status, especially if they discontinue their education before or after a scheduled break. We will be discussing in the near future a recommendation to amend the TAA contracts to include specific language for training facilities regarding reporting withdrawals from school, failure to begin training, etc., and their role in providing that information to our Department within a certain time period. Additionally, federal

law provides for a Workforce Investment Act training provider list to be available in July. This Agency has elected to adopt the WIA training provider list for the TAA Program. One feature of this list is that it obligates training providers to report training outcomes. This information will also help to prevent the overpayment of benefits.

Period of Availability of Federal Funds

Our main objective for this area was to determine if the department met the period of availability compliance requirements specified in the award document. Key employees were interviewed about procedures related to the period of availability of federal funds.

Award documents were reviewed and accounting records were traced to supporting documentation to determine if funds were obligated, reallocated, or expended within the grant period.

Based on our review of award documents and accounting records, we determined that the department complied with the period of availability requirements for the program.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting records, and were submitted in accordance with program requirements.

We interviewed key department personnel about the requirements and procedures for preparing, reviewing, and submitting the program reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines.

Our review of selective federal financial reports revealed that the department complied with the program requirements for reporting. The selected reports were inclusive of the program activities for the period and were supported by accounting records. We had no finding related to federal reporting for the Trade Adjustment Assistance program.

JOB TRAINING PARTNERSHIP ACT

The Job Training Partnership Act federal cluster is comprised of the following program titles: Job Training Partnership Act (JTPA Title II) and Employment and Training Assistance–Dislocated Workers (JTPA Title III). The objectives of the Title II program are to provide job training services to youth and adults who face significant employment barriers. The primary program objective is to move jobless individuals into permanent self-sustaining employment. The

objective of the Title III program is to assist dislocated workers through the provision of training and related employment services provided by Service Delivery Areas on contract with the state.

Our audit of the JTPA focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Cash Management
- Matching, Level of Effort, Earmarking
- Federal Reporting
- Subrecipient Monitoring

General Internal Control

Our primary objectives for general controls were to obtain an understanding of, document, and assess management's general controls. We interviewed key program employees and reviewed organizational charts, descriptions of duties and responsibilities, grant requirements, and departmental policies and procedures.

Based on our reviews and interviews, general controls appeared adequate.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The primary objectives of this area were to determine if grant funds were expended only for allowable activities and to determine if the federal expenditures were in compliance with grant requirements.

To determine if grant funds were expended for allowable activities only, we tested a nonstatistical sample of expenditures to determine if program costs were adequately supported, charged to the applicable grant program and cost category, properly approved, and paid correctly. Supporting documentation for program expenditures was examined to determine if the charges were valid and allowable.

Based on testwork performed, we determined that grant funds were expended for allowable activities and program costs were adequately supported, paid correctly, and in compliance with grant guidelines.

Cash Management

Our objectives for this area were to determine if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the

Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on the testwork performed, we determined that management had complied, in all material respects, with the State-Treasury cash management agreement and that drawdown requests were based on program requirements.

Matching and Earmarking

The primary objective was to determine if the department met the program-specific matching and earmarking requirements of the grant.

To provide reasonable assurance that matching and earmarking requirements were met, we interviewed key personnel and examined selected financial status reports and reconciliations to the State of Tennessee Accounting and Reporting System (STARS) Grant Expenditures by Object reports. We also performed testwork to determine that required percentages were met or not exceeded.

Based on testwork performed, we determined that the department complied with the matching requirements and earmarking requirements.

Federal Reporting

Our objective was to ensure that reports of federal awards submitted to the federal awarding agency included all activity of the reporting period, were supported by underlying accounting records, and were submitted in accordance with program requirements.

We interviewed key department personnel about the requirements and procedures for preparing, reviewing, and submitting the federal financial reports. We selectively tested the mathematical accuracy of the reports, reviewed supporting documentation for the information presented, and determined if the reports were prepared in accordance with grant guidelines.

Our review of selective federal financial reports revealed that the department complied with the program requirements for reporting. The selected reports were inclusive of the program activities for the period and were supported by accounting records.

Subrecipient Monitoring

The primary objective of this area was to determine whether subrecipients (service delivery areas) were properly monitored to ensure compliance with federal award requirements.

We inquired of management about procedures for monitoring subrecipients. The department has a contractual agreement with the Department of Finance and Administration to monitor the subrecipients of the JTPA program. We obtained and reviewed the monitoring reports for the audit period to determine that field visits were documented, deficiencies were noted, and that the service delivery area initiated corrective action. We also reviewed the correspondence between the department and the service delivery areas to verify compliance with resolution procedures.

We determined that the Department of Finance and Administration properly monitored JTPA program subrecipients and that the department complied with federal award requirements.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Our objective was to verify that the department's Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards, and total reported disbursement amounts were traced to supporting documentation. Based on the testwork performed, we determined that, in all material respects, the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

EQUIPMENT

Our primary objective in the area of equipment was to follow up on the status of the prior-year audit finding. Our specific objectives were to determine whether

- equipment included on the Property of the State of Tennessee (POST) Exception Report was located or deleted from POST;
- equipment was correctly listed on POST;
- equipment was adequately safeguarded; and
- equipment sold, damaged, or obsolete was removed from POST.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the inventory of equipment owned by the department. Supporting documentation was reviewed, and samples of equipment maintained throughout the department were tested.

Based on a review of the applicable laws and regulations, interviews with key personnel, review of supporting documentation, and testwork, the department's controls over equipment

appeared adequate. Equipment items were adequately safeguarded and properly listed and marked. We had no findings related to equipment; however, other minor weaknesses came to our attention, which have been reported to management in a separate letter.

REVENUE

The objectives of our review of revenue controls and procedures were to determine whether

- the department reconciled revenue records with revenue reports;
- the department maintained proper documentation for each transaction;
- transactions were properly documented;
- transactions were properly recorded;
- receipts agreed with amounts deposited;
- deposit slips were properly completed;
- departmental records were reconciled with STARS (State of Tennessee Accounting and Reporting System);
- funds were properly deposited intact; and
- funds were deposited in a timely manner.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over revenues. We reviewed reconciliations of revenue records with revenue reports. We also tested a nonstatistical sample of certain revenue transactions and conducted cash counts.

Based on our interviews, review of supporting documentation, and testwork, we determined that internal controls appeared adequate. We determined that the department reconciled revenue records with revenue reports and maintained proper documentation. We determined that transactions were properly documented and recorded, that receipts agreed with amounts deposited, that deposits were completed properly, that departmental records were reconciled with STARS, and that funds were properly deposited and deposited intact. We also determined that funds were deposited in a timely manner.

PAYROLL

The objectives for our review of controls and procedures over payroll were to determine whether

- payroll (wages, salaries, and benefits) disbursements were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;
- payroll was allocated properly; and
- specific accounting personnel were qualified for their positions.

We interviewed key departmental personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payroll. We tested a nonstatistical sample of payroll transactions to determine if payroll costs were adequately supported, properly computed, and properly allocated. Specific accounting personnel files were reviewed to determine whether employees qualified for the position held.

Based on our interviews, review of supporting documentation, and testwork, we determined that controls appear adequate. We also determined that payroll costs were adequately supported, properly computed, and properly allocated. Also, specific accounting personnel files were reviewed to determine whether employees qualified for the position held. We had no findings related to payroll; however, other minor weaknesses came to our attention, which have been reported to management in a separate letter.

EMPLOYMENT SECURITY TRUST FUND

Our objective for reviewing the employment security trust fund was to determine whether the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements.

We recalculated the financial statements to determine their accuracy, traced amounts to the supporting documentation, and verified account classifications. We compared the current-year financial statements with the prior-year financial statements to determine any reporting changes. We also compared the amounts between current-year financial statements and prior-year financial statements and obtained explanations for any significant variances. Our testwork also consisted of calculation of unemployment taxes paid by employers, tests of receivable balances, confirmation of cash balances and interstate benefits receivable, tests of receivables, revenues, and expenditures and analytical procedures to determine if the financial statements are fairly presented.

We determined that the financial statements were fairly stated, properly supported, and comparable to the prior-year financial statements. We also reported minor weaknesses to management in a separate letter.

CONTINGENT AND DEFERRED REVENUE

The objective of our review of controls and procedures for contingent and deferred revenue were to determine whether

- department records reconciled to the State of Tennessee Accounting and Reporting System (STARS),
- transfers of contingent and deferred revenue to earned revenue were made in a timely manner, and
- contingent and deferred revenue accounts are used for the proper purpose.

We interviewed key personnel to gain an understanding of the department's procedures and controls over contingent and deferred revenue. We also tested a nonstatistical sample of selected accounts. We determined that departmental records reconciled to STARS, transfers were made in a timely manner, and the accounts were used for the proper purpose. We had no findings related to contingent and deferred revenue; however, other minor weaknesses came to our attention, which have been reported to management in a separate letter.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Labor and Workforce Development filed its compliance report and implementation plan on June 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Labor and Development has not filed its compliance report and implementation plan due June 30, 2000, or June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Department of Labor and Workforce Development is not in compliance with federal law.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Labor and Workforce Development divisions and allotment codes:

337.01	Division of Administration
337.02	Division of Occupational Safety and Health
337.03	Division of Workers' Compensation
337.04	Division of Mines
337.05	Division of Boilers and Elevators
337.06	Division of Labor Standards
337.07	Division of Employment and Training
337.08	Second Injury Compensation Fund
337.09	Division of Adult Basic Education
337.10	Division of Employment Security
337.11	Employment Development
337.12	Special Administrative
337.13	Employment Security Building Program
337.14	Uninsured Employers Fund
337.99	Employment Security Trust Fund